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HEADLINE: Retail-Sales Slide Fuels Concern --- Decline of 2.3% in April Among Worst on Record;
Even Wal-Mart Slipped

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BODY:

April's dismal retail-sales figures, among the worst on record, are stoking worries that the nation's stumbling housing market will continue to weigh on consumer spending in the months ahead.

Major retailers reported a collective 2.3% decline in same-store sales, or sales at stores open at least a year, according to an index of 51 leading chains compiled by the International Council of Shopping Centers. Michael Niemira, chief economist of the New York-based trade group, said that was the weakest showing since he began tracking the closely watched industry measure of performance in 1970.

Bad weather, which hurt demand for spring fashions, was partly to blame, and so was this year's early Easter, which boosted sales in March at April's expense. Even after accounting for those factors, however, results missed expectations.

Wal-Mart Stores Inc.'s same-store sales fell 3.5%, a rare drop for the nation's largest retailer and the steepest since it began reporting monthly results 28 years ago. Wal-Mart said its shoppers have expressed concerns recently about their personal finances, the cost of living and high gasoline prices.

Department stores, which have been among the industry's strongest performers, weren't immune to the malaise. Federated Department Stores Inc., parent of Macy's and Bloomingdale's, said its same-store sales declined 2.2%, missing Wall Street's forecast for an increase. J.C. Penney Co. and Kohl's Corp. posted steep declines, also falling short of analysts' expectations.

Saks Inc.'s 12% increase was among the few bright spots, but gains at Neiman Marcus and Nordstrom Inc. were less robust.

"No matter how you cut it, you can't put too much of a positive spin on today's numbers," Mr. Niemira said.

Meanwhile, economists surveyed by WSJ.com said they expect continued weakness in consumer spending but the worst of the economic slowdown has passed. By a ratio of more than 5-to-1, they said the first quarter's 1.3% growth rate, the weakest in four years, marked the low point in the slowdown, which began last year. However, they expect growth to stay below 3% into early 2008, leaving 2007 on track to have the slowest economic growth since 2003.

Outright declines in overall monthly same-store sales figures in the U.S. have occurred only twice in more than three decades of record-keeping, and last month's was by far the sharpest of those.

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Wal-Mart and Federated in part blamed weak sales of home-related goods. That's in line with a recent warning from Sears Holdings Corp., which noted weak appliance sales, and Circuit City Stores Inc., which reported softer demand for big-screen TVs. Mr. Niemira says falling home prices are weighing on consumers, leading them to extract less cash from home equity.

Even so, some see reasons for optimism. Apparel chains, including teen retailer American Eagle Outfitters Inc. and discounter TJX Cos., owner of TJ Maxx and Marshall's, said recent warmer temperatures have reignited sales. Strong fashions and easing year-to-year comparisons in the months ahead are a cause for hope that the recent weakness is a blip, says Todd Slater, an analyst at Lazard Capital Markets LLC.

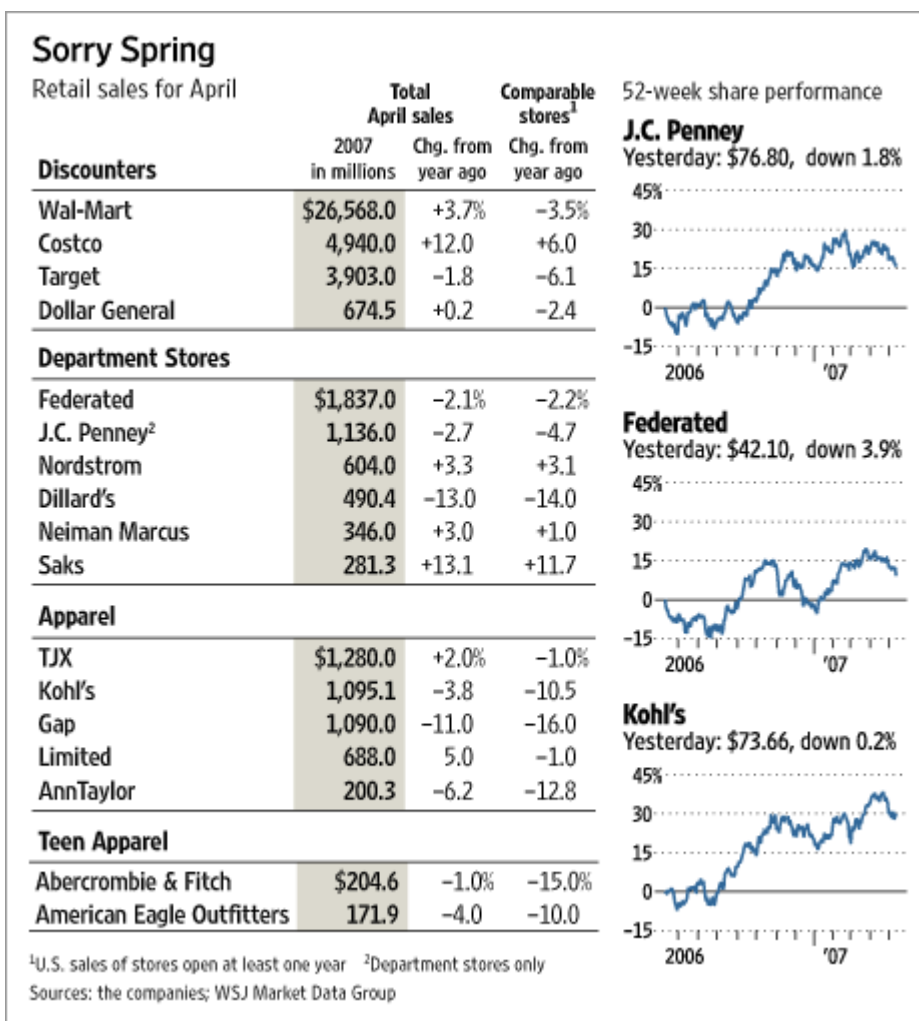
"People don't say, 'The housing market is soft; maybe I shouldn't buy a summer dress,'" says Julia Coronado, senior U.S. economist at Barclays Capital. Unlike many analysts, she sees "very little connection between the housing market and the consumer" and reckons the recent weakness is a result of high gasoline prices and consumers taking a breather following a relatively strong holiday season. She expects consumer spending in 2007 to increase 3.3%, slightly ahead of last year's 3.2% pace.

Lackluster apparel is another key hurdle for Wal-Mart, said Bill Marquard, a former consultant to the company. Rivals that have begun to match Wal-Mart's efficiencies and prices, such as Target Corp., are stealing customers with better fashions, he said. Minneapolis-based Target said April's same-store sales fell 6.1%, but it expects May's to jump 5% to 7%.

Federated's April sales "were disappointing across the country," Chairman and Chief Executive Terry J. Lundgren wrote in a release, and May same-store sales could decline as much as 2%. Weakness wasn't limited to the more than 400 former May Co. stores, which have struggled since they were converted to Macy's in September, Mr. Lundgren said. That's a signal that the entire Macy's chain faces a nagging "identity crisis," says Eli Portnoy, who heads Portnoy Group Inc., a Los Angeles brand-strategy consultant. Shoppers who had been loyal to Marshall Field's in Chicago see Macy's as down-market. Meanwhile, to former customers of defunct regional chains such as Filene's, Foley's and Burdine's, Macy's "has still got a reputation for being an expensive store from New York."

April was rough also for mall-based specialty stores. Gap Inc. reported a 16% same-store sales decline. Abercrombie & Fitch Co. said results will fall below analysts' forecasts. American Eagle missed Wall Street expectations, with a 10% decline in same-store sales, but it reaffirmed its first-quarter earnings outlook of 34 to 35 cents a share.

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